

UNITED STATES ENVIRONMENTAL PROTECTION AGENCY
WASHINGTON, D.C. 20460

THE ADMINISTRATOR

MEMORANDUM

SUBJECT: Comments on the Draft Global Warming Memorandum & Talking Points

FROM: Christine Todd Whitman

TO: Paul H. O'Neill
Secretary of the Treasury

Attached are EPA's comments on Treasury's draft global warming memorandum and associated background and talking points. We have also provided these to your staff.

Questions on our comments can be directed to Tom Gibson, Associate Administrator for Policy, Economics and Innovation. Tom can be reached at (202) 564-4332, or via electronic mail at gibson.tom@epa.gov.

Attachment

MEMORANDUM

FROM: Tom Gibson

TO: John Howard
Bob McNally

SUBJECT: Comments on Draft Global Warming Memorandum and Talking Points

DATE: March 7, 2001

Thank you for the opportunity to provide comments on the draft global warming memorandum and talking points. I have attached our specific comments on the memorandum as well as an additional document that includes EPA's recommendation with associated background information and talking points. If you have any questions, please feel free to call me at (202) 564-4332.

Comments on the Global Warming Memorandum

In the "Recommendations" Section

2nd paragraph: We recommend striking the first sentence and replacing it with: *"The Administration is not considering regulating carbon dioxide under existing Clean Air Act authorities"*.

2nd paragraph: We recommend modifying the paragraph to include the following sentence: *"While carbon dioxide is a fundamental element upon which life depends, there is scientific evidence that excessive amounts of carbon dioxide impact global climate change."* As you refer to on page 4 of the memorandum in "The Science", the findings of the Intergovernmental Panel on Climate Change (IPCC) indicate that there is broad consensus within the global scientific community that carbon dioxide emissions from human activities are causing global warming and that the climate is expected to continue to change. The greatest scientific uncertainties concern how fast the climate will change and what will be the regional impacts.

In the "Carbon Dioxide's Impact on Coal Use and Electricity Prices" Section

It appears that the information included in this section is from the recently published Energy Information Administration (EIA) report on multi-pollutant approach to controlling emissions from the power sector. The EIA analysis is based on assumptions that do not apply to a four emissions reduction strategy as proposed by the President. For example, the EIA analysis does not simulate a multi-pollutant cap-and-trade system; instead they model a tax on carbon, a mechanism not considered in any of the multi-pollutant bills currently proposed in Congress. In addition, EIA does not include mercury in their modeling, they inflate the costs of achieving carbon dioxide reductions by assigning all the costs of achieving nitrogen oxide, sulfur dioxide, and carbon dioxide to carbon dioxide, and they fail entirely to mention the potential benefits, qualitative or quantitative, of pollution reductions.

We recommend replacing this section with the following:

"Over fifty percent of current US electricity production comes from coal-fired sources. Because it is a low cost and readily available source of energy in this country, coal will continue to be a part of any U.S. energy strategy. However, coal-fired electric power plants emit one-third of US carbon dioxide emissions and emit 70 percent more carbon dioxide per unit of production than natural gas electricity generation. Recent EPA analysis indicates that even with the addition of caps on all four major air emissions from the power sector (NO_x, SO₂, Hg, and CO₂), coal will continue to contribute the largest share of electricity production in this country. In order to address global warming while ensuring that coal remains a part of any energy strategy, US coal-fired electric generation can become much more efficient using available and newly emerging technologies. A

regulatory driven market-based program would provide the incentives the industry needs to further develop these more efficient technologies. Additionally, achieving the reductions using a market based cap-and-trade mechanism would allow flexibilities that reduce the potential impacts of the environmental constraints on the price of electricity and on the coal industry."

In the "International Negotiations" Section

3rd paragraph: The date for the next conference of the Parties (what is referred to as COP-6 bis) has been set for July 16-27 in Bonn, Germany. Because Governor Whitman and other senior Administration officials will be requested to address these issues prior to the resumed negotiations at COP-6 bis, we recommend an addition to this paragraph: *"Prior to the next Conference of the Parties, the Administration will be requested to articulate its policy on climate change at the Summit of the Americas Environment Ministers' meeting in late March in Montreal, the Ministerial meeting on climate at the UN Commission on Sustainable Development in late April in New York, and at the OECD Environment Ministerial in mid-May in Paris."*

In the "Options" Section

Option 2: This option is inconsistent in that if the Administration does not include carbon dioxide in a four emissions strategy, the President will be viewed by many as not sticking with his campaign statement (to "require all power plants to meet clean air standards in order to reduce emissions of sulfur dioxide, nitrogen oxide, mercury and carbon dioxide").

We recommend an alternative option: Stick with the campaign statement and state that the Administration is not considering regulating carbon dioxide under existing Clean Air Act authorities. Maintain the President's commitment to legislation that reduces emissions of four gases, including carbon dioxide, thereby providing the signals of predictability and certainty that much of the industry is asking for. Rather than call it a "four pollutant" or "multi-pollutant" strategy, refer to it as a "comprehensive emissions reduction" strategy and use the terms "emissions" and "gases" instead of "pollutants".

Recommendation, Background, and Talking Points

Recommendation: State that the Administration is not considering regulating carbon dioxide under existing Clean Air Act authorities. Stick with the President's campaign statement to "reduce emissions of sulfur dioxide, nitrogen oxide, mercury and carbon dioxide within a reasonable period of time." Rather than call it a "four pollutant" or "multi-pollutant" strategy, refer to it as a "comprehensive emissions reduction strategy" and use the terms "emissions" or "gases" instead of "pollutants."

The President's statements to date on a comprehensive electric power strategy leave a tremendous amount of room to maneuver regarding the targets, timetables, and flexible structure that could be built into such legislation. In fact, there is an opportunity to craft an agreement that responds to concerns from all sides and avoids the controversy of whether or not carbon dioxide should be called a "pollutant."

Why carbon dioxide should be included in the utility bill:

- It fulfills the President's campaign promise -- Failure to address carbon dioxide as part of a utility emissions reduction strategy would subject the President to criticism that he is reneging on a campaign promise.
- It complements the President's national energy plan -- A utility strategy that includes carbon dioxide would be the key component of environmental integrity in a national energy plan that otherwise will be perceived as hostile to environmental interests. It strengthens the case for a number of key elements of the plan, such as ensuring larger natural gas supplies, promoting hydropower and nuclear power, and investing in clean coal research to improve the efficiency of coal plants.
- It provides the predictability and certainty that business wants -- Although many groups oppose action to address carbon dioxide, there is also considerable support from some electric power producers. Just as uncertainty about utility deregulation in California froze new construction and contributed to their current problems, uncertainty about what environmental requirements utilities will have to meet is preventing them from taking actions now to reduce emissions. They need a framework in which they can act. It's evident that large investments are needed nationally in the power sector, and carbon dioxide would be an important element of investment decisions. Industry costs can be reduced by 1/3 by pursuing an integrated strategy that includes carbon dioxide, as opposed to tackling each of the 4 gases individually.
- It provides an environmentally sound, long-term signal to industry -- Sending a signal to invest in new coal plants using today's technologies runs counter to the long-term need to reduce greenhouse gases, regardless of one's position on the speed at which cuts are needed. Including carbon dioxide in a utility bill would not significantly reduce current coal generation, but it would promote the use of cleaner fuels in new power plants and

encourage the development of more efficient coal technologies (such as coal gasification) and options for carbon dioxide removal/storage to make coal a cleaner option for the long term.

- It strengthens the U.S. negotiating position -- The Administration would have more clout in global warming negotiations if the President were committed to domestic action. Conversely, backing away from this proposal would strengthen the perception that the Administration plans to ignore this problem and will hurt chances of the U.S. brokering a deal that is more on our terms.
- Global warming science is compelling -- The science is strongest on the fact that carbon dioxide is contributing, and will continue to contribute, to global climate change. The greatest scientific uncertainties concern how fast the climate will change and what will be the regional impacts. Even within these bands of uncertainty, however, it is clear that global warming is an issue that must be addressed.
- There are flexible ways to ease the transition to carbon dioxide reductions -- Legislation could include mechanisms for companies to earn credits toward their targets by trading with other utilities or other carbon dioxide sources, reducing greenhouse gases other than carbon dioxide, and funding carbon dioxide reduction projects in developing countries. These mechanisms can significantly reduce the costs of including carbon dioxide in a utility bill.

Talking Points

- Global warming is a problem that must be taken very seriously.
- Although carbon dioxide is a fundamental element upon which life depends, there is scientific evidence that excessive amounts of carbon dioxide impact global climate change.
- I am not considering regulating carbon dioxide under existing Clean Air Act authorities.
- Instead, I intend to work with stakeholders to formulate a new, market-based strategy that reduces carbon dioxide and other emissions from power plants without jeopardizing the reliability of our energy system.



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3/8/01

TO:

Secretary Paul H. O'Neill

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FROM:

EPA/gov. Whitman via Tom Gibson

COMMENTS:

NUMBER OF PAGES INCLUDING COVER SHEET:

7